The Mineral Industry of East Timor (Timor-Leste)

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East Timor (Democratic Republic of Timor-Leste) has a landmass of 15,000 square kilometers and is located on the eastern part of the island of Timor. On the west is the Indonesian Province of Nusa Tenggara Timur; Australia is situated 500 kilometers south across the Timor Sea. After being ruled by Portugal for more than 400 years followed by 25 years of violent transition from Indonesia and 2.5 years of United Nations administration, East Timor became independent on May 20, 2002. During the transition, the country's infrastructure was severely damaged, and people were relocated to other places. The country had a population of less than 1 million people in 2004. After the United Nations civil administration and peacekeeping operations withdrew from the country, the economy contracted by 2.7% in 2003. The country's real gross domestic product (GDP) growth was positive in 2004 and 2005 and the real GDP was expected to continue to grow by about 2% in the next several years (Asian Development Bank, 2005a, p. 4).

East Timor was considered a highly prospective area for natural gas and oil. The Government counted on the oil and gas sector to contribute a significant portion of its revenues to the budget. In 2003, the Governments of Australia and East Timor signed the International Unitization Agreement (IUA) and a related memorandum of understanding for the Greater Sunrise field, which is located at the eastern perimeter of the Joint Petroleum Development Area established under the Timor Sea Treaty. Under the IUA, East Timor will receive 18% of the total Government revenues from the field, and Australia will receive 82%. Australia will pay East Timor \$1 million per year during the construction phase of the Greater Sunrise development and \$10 million when the facility is put into operation. The IUA was terminated when the Treaty on Certain Maritime Agreements in the Timor Sea was signed between the Governments of Australia and East Timor in January 2006. Under the new treaty, the two countries will share the "upstream" revenues from the Greater Sunrise field equally. Allocation of the "downstream" revenues from refining will be determined later. The Greater Sunrise field was operated by a partnership of ConocoPhillips Company, Osaka Gas Company, Royal Dutch/Shell Group, and Woodside Energy Company. The field was estimated to have 220 billion cubic meters of natural gas and 300 million barrels of condensate reserves (ETAN News, 2006§).

The Bayu-Undan field, which is in the Timor Sea Treaty area, started production of condensate in February 2004. ConocoPhillips was the operator. The gas was separated from the liquid and reinjected back into the reservoir. The liquid was transported to the floating processing and storage facility *Liberdade* and the petroleum products were sold on the open market. The gas will be extracted from the reservoir and transported to the Darwin liquefied natural gas (LNG) plant in Australia through a pipeline in 2006. The construction costs for the LNG plant and the pipeline were estimated to be about \$1 billion and \$500 million, respectively. The field was estimated to contain 96 billion cubic meters of natural gas and 400 million barrels of condensate reserves (Petroleum Transparency, 2005§). ConocoPhillips signed agreements to supply 3 million metric tons per year of LNG to Japanese Tokyo Electric Power Co. and Tokyo Gas Co. Ltd. for 17 years. In 2004, the East Timor Government received about \$41 million in revenue from the gas and oil sector. The revenue was expected to increase to \$243 million in 2005 (Asian Development Bank, 2005b, p. 2).

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